



At its core property taxes are simple: a government entity decides on a tax rate which is then applied to the value of a property; the rate times the property value equals tax revenue. It is important for Utah residents to understand some of these tax details to better understand the value and constraints Utah property taxes creates for them.

The other two revenue sources are sales tax and fees for service. But while the basics of property tax calculations are straightforward, actual property taxes in Utah are a little more complicated. For a city like American Fork, property taxes are one of three main ways we pay for the services resident's request.



AMERICAN FORK
www.americanfork.gov

Citizens Want to Know: PROPERTTY TAXES

FACTS ABOUT OUR PROPERTY TAX RATE

According to the Tax Foundation, Utah ranks as #42 in property tax rates by state¹. When looked at on a per capita basis Utah has the 37th lowest property taxes². This means Utah residents enjoy some of the lowest property taxes. There are several reasons for this. Many residents may not realize that they only pay property tax on about half of their home value (55%). Commercial properties are taxed at 100% of their assessed value. This represents a lower tax cost for residential homeowners and lower tax revenues for taxing entities entrusted to provide services. Another distinction worth mentioning is the revenue generated by this relatively low tax rate is shared by many taxing entities. There are 5 entities that assess property tax to residents in American Fork, the largest being the school district which is double all other taxing entities combined (*see figure 1*).

For American Fork City, it's important that our residents understand that differing entities exist. Sometimes residents are upset with the City when another taxing entity raises their tax rates even though American Fork has no control over other entity rates, nor does the city garner any additional revenue from another entity's rate increase. However, we fully acknowledge that for a resident, a tax increase is a tax increase, regardless of who assesses it. Which is why American Fork tries hard to keep taxes low. For the record, American Fork has not raised the city property tax rate since 2008 when we raised it .00025 for road improvements. This increase equated to \$500,000 in 2008 and about \$350,000 in today's dollars. Those funds are still put towards road improvements each year.

Property Taxes Paid by Taxing Entity

ENTITY	RATE	\$
Alpine School District	0.006800	\$1,474
American Fork	0.001906	\$413
Utah County	0.001202	\$261
CUWCD*	0.000400	\$87
NUCWCD^	0.000016	\$3
TOTAL	0.010324	\$2,237

*Central Utah Water Conservancy District

^North Utah County Water Conservancy District

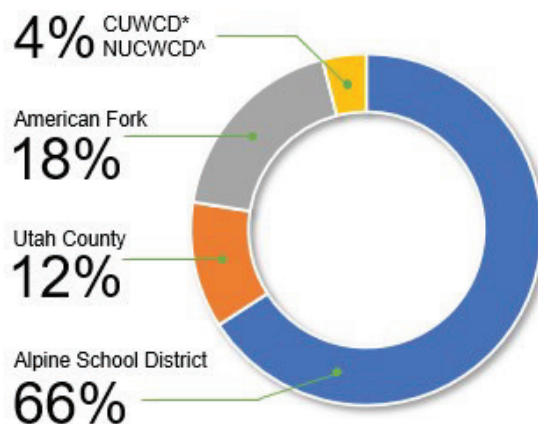


Figure 1 - Property taxes paid by taxing entity based on a median home value of \$394,000. A resident's tax bill may show more entities because places like the school district and county have separated out their rates based on differing services they provide.

¹<https://files.taxfoundation.org/20200813112019/property-taxes-by-state-2020-FV-01.png>

²<https://taxfoundation.org/state-property-taxes-per-capita-2020/>

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THE CERTIFIED TAX RATE

If we dive a little deeper into Utah's property taxes, the first distinction residents must know is the difference between property tax rates in other states and Utah's "certified tax rate." As described earlier, a basic property tax rate is set by an entity and applied to the value of a property. The rate stays the same so if the property value increases, so too will the tax revenue to the organization. Utah's Certified Tax Rate is a state mandated calculation performed by the county assessor to ensure that property tax revenue an entity collects remains the same year after year unless adjusted through a public process. So, if home values go up in a community, as they have been for the past 10

years in Utah, that means that the entity's tax rate will be adjusted down to ensure the entity receives the same revenue as the prior year. In Figure 2 we see how American Fork City's tax rate has gone down since 2012 to balance out the increase in home values. You will also note that in the event of an economic downturn, like what was experienced after 2008, home values went down but the certified tax rate actually went up. Again, creating the same tax revenue for entities as in prior years. This can also be problematic for our residents who see their property taxes go up during a recession, even though American Fork has no control over changing the certified rate.

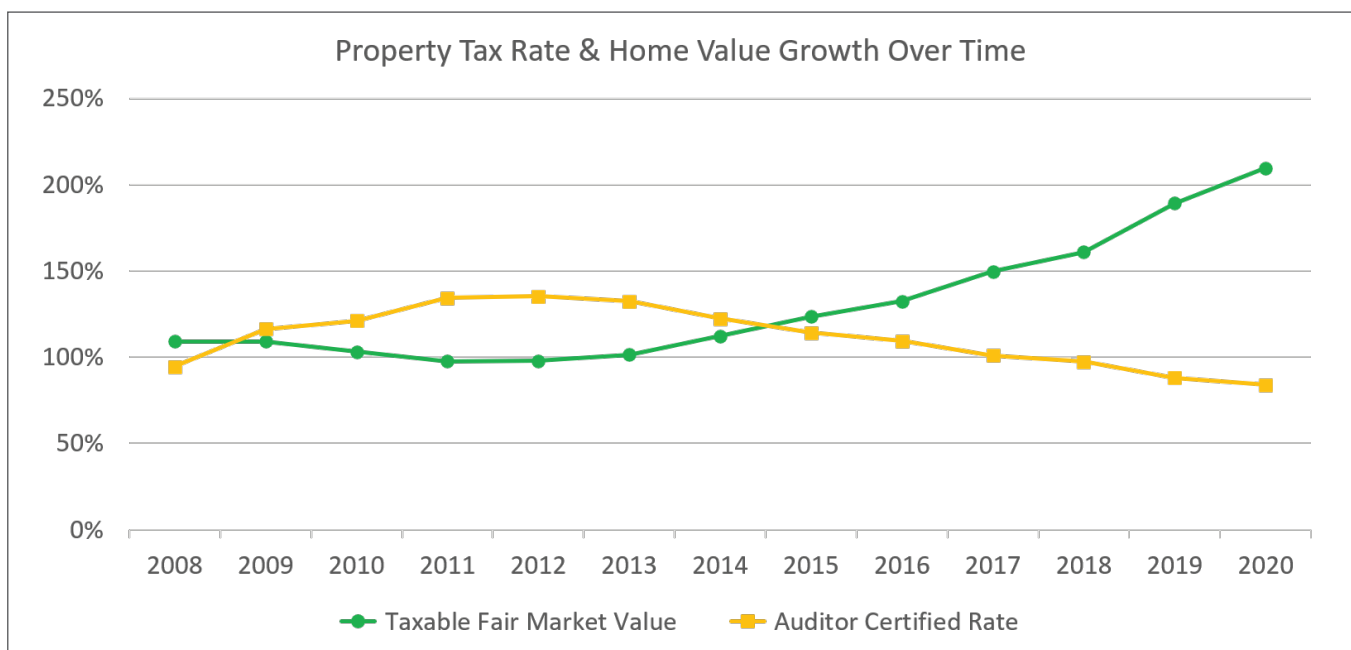


Figure 2 - The certified tax rate cancels out changes to home values so that the taxing entity collects the same amount of money on the same properties, effectively eliminating increased revenue due to inflation.

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THE CERTIFIED TAX RATE

While the certified tax rate helps minimize how much residents must pay in taxes during a growing economy, it also has the effect of restricting increased revenue needed by the taxing entity to cover inflation. Costs for materials like asphalt, books, vehicles, fertilizer, or even employees, increase over time for American Fork City, just as they do for private businesses. But while costs of providing services increase over time due to inflation, the city's revenue to provide those services does not increase due to the certified tax rate. The result is while the services American Fork City provides to residents cost more each year, the revenue the City collects to provide those services does not increase. All homes in American Fork, including newly built homes, are still paying property taxes based on 2008 service level costs.

Now with that said, if you were to look at the City's general fund budget over time you will see it going up, not down. This is largely attributed to new growth, which many people look to as the funding solution to solve any expenditure shortfalls. But what many people may not realize is that while new homes bring in more property tax revenue, they also bring in additional costs and demands for service. Every new home has a need for basic services like police, fire, parks, library's, recreation, and roads to name a few. While the median home in American Fork produces \$413 annually in property taxes, it also costs roughly \$3,000 to service today, not including utility services that are paid for by fees. American Fork must increasingly cover this gap with other funding such as sales tax or fees. Otherwise, we are forced to reduce services or service quality.

When residents see their property taxes increasing in a given year, they should realize this does not mean American Fork City is increasing its rates. American Fork city has not raised its rate for the past 12 years while most all other taxing entities have. Utah County increased their rate by 67% (+0.000453) in 2020³. Additionally, because the certified tax rate is assessed based on all homes in American Fork City collectively, and not on individual houses, individual taxes paid may differ from home to

home. If all the homes in American Fork increased in value from year to year by the same percentage, then each property owner would pay the same number of dollars they had the previous year. But not all homes appreciate or depreciate at the same rate and as a result the taxes some residents pay may be higher while others may be lower based on the certified tax rate and their individual home value. Overall, because of the certified tax rate, the property tax revenue to American Fork City will stay the same as the previous year, not including new growth, unless the City goes through a public process known as Truth in Taxation to change our tax rate.

DID YOU KNOW?

- **ONLY HALF (55%) OF YOUR HOME VALUE IS EVEN TAXED.**
- **ONLY 18% OF THE PROPERTY TAXES YOU PAY GO TO AMERICAN FORK CITY.**
- **RESIDENTS PAY MORE PROPERTY TAXES TO THE SCHOOL DISTRICT THAN EVERY OTHER TAXING ENTITY COMBINED.**
- **AMERICAN FORK'S PROPERTY TAX RATE HAS BEEN GOING DOWN SINCE 2012.**
- **AF RESIDENTS ON AVERAGE PAY LESS IN PROPERTY TAXES AND UTILITY FEES THAN HALF THE CITIES IN UTAH COUNTY.**
- **AMERICAN FORK CITY HASN'T RAISED ITS PROPERTY TAX RATE SINCE 2008.**
- **WHILE THE MEDIAN HOME IN AF PRODUCES \$413 ANNUALLY IN PROPERTY TAXES, IT ALSO COSTS ROUGHLY \$3,000 ANNUALLY TO SERVICE.**

TRUTH IN TAXATION

If American Fork City chooses not to raise property taxes, then the City's tax rate will continue to decrease during a growing economy. If a city chooses to increase property taxes, or even hold the rate constant from the previous year, then the City must follow a strict set of guidelines to communicate to residents the change in our tax rate. This process and associated regulations, called Truth in Taxation⁴, were established by the State in 1985 and set out specific requirements for public noticing and hearings related to a property tax increase. The Truth in Taxation process is designed to ensure residents are fully aware of the

property tax rate change. However, the strict communication guidelines have some limitations that may skew resident's understandings of the rate change. For example, a city must declare a tax "increase" even if they want to hold the rate the same from one year to the next. This is because the certified tax rate will have adjusted the effective rate down. If American Fork ever considers a property tax increase, we would follow the process as outlined through the Truth in Taxation process to make sure our residents have a chance to understand and voice their opinions before voting.

³<http://www.utahcounty.gov/dept/commish/taxation.html>

⁴<https://le.utah.gov/xcode/Titles9/Chapter2/59-2-S919.1.html>

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TAX RATES AND HOME VALUES

While the certified tax rate can adjust a city's tax rate to keep tax revenue neutral, cities still can increase or decrease their own rate through Truth in Taxation. Figure 3 shows the current tax rates for most cities in Utah County.

In Figure 3 we can see that American Fork City is on the higher end in the county when it comes to certified tax rates in the county. This is because some cities can "afford" to have lower property taxes for several reasons. For some it is because they offer fewer services than American Fork. Cities like Highland and Alpine do not have a fitness center or recreation programs. Cedar Hills does not have a library. In American Fork, these services are provided and paid for through general fund revenues generated by property taxes. Another reason some city's rates are lower is because some of the services they provide are charged through a fee rather than through property tax. For example, while American Fork residents pay for police through our taxes, City's like Alpine, Highland and Cedar Hills charge an "EMS Fee" to cover public safety. And while American Fork pays for its roads through its general fund, cities like Provo, Mapleton, Highland, Vineyard, and Pleasant Grove all charge a utility Road Fee to pay for road repairs.

Finally, homes values can also influence a city's property tax rate. The higher the home values are in a city the more tax revenue that city can collect. In Figure 4 you can see the median home values for most cities in Utah County.

You can see that while American Fork has a higher tax rate than many cities, our median home value is lower, roughly in the middle of most cities in Utah County. So, when you apply the city's certified tax rate to its median home value you will see that in terms of actual dollars paid, American Fork is not the most expensive city to live in (see figure 5).

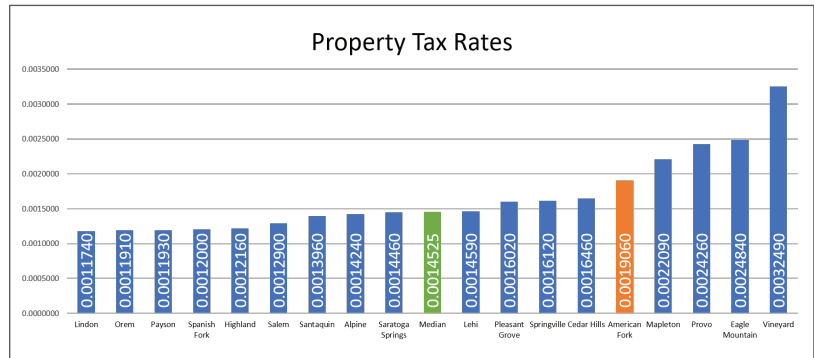


Figure 3 - Property tax rates by city in Utah County.

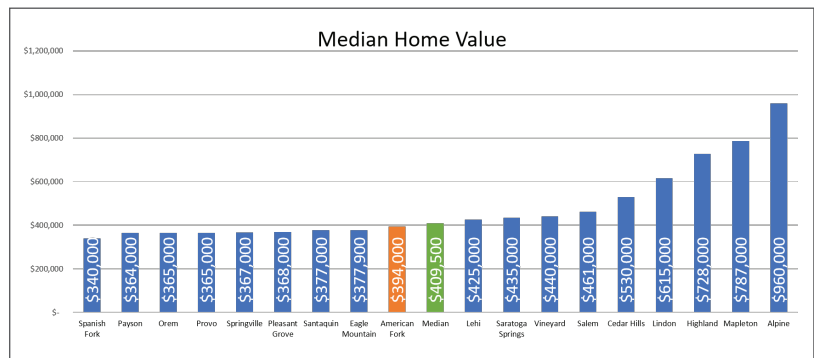


Figure 4 - Media home value by city in Utah County.

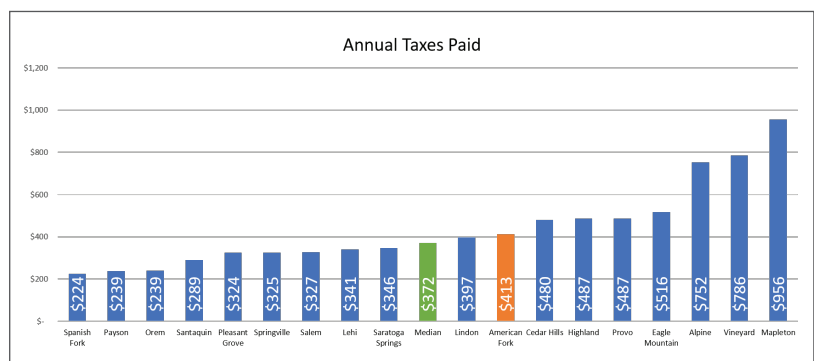


Figure 5 - Annual property taxes paid based on each city's certified tax rate and its median home value.

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PROPERTY TAXES AND UTILITY BILLS

Property taxes make up only one part of what a homeowner must pay for services. In addition to taxes, residents also pay utility fees. Taxes are intended to cover services that benefit all residents whether they use them directly or not (e.g., police, fire, parks). Utility fees are intended to be paid only by those who directly use the service. A home that does not use culinary water may not be required to pay a water bill. In Figure 6 you see that American Fork compared its utility costs to that of neighboring cities. While there are a handful of cities in Utah county with lower utility bills, most cities actually charge more than American Fork.

Because cities differ on how they charge for services—whether through taxes or fees—the most accurate comparison between cities would require looking at a combination of both utility fees and property taxes. In Figure 7 we calculated the property taxes paid in each city based on their certified tax rate and their median home value. We then added to that the annual utility bill fees based on a set of assumptions applied to all cities. When comparing total taxes and fees for services (property tax + utility bill) you can see that American Fork is very moderate in our taxes and fees, especially when you consider the services we provide. Most all the cities with lower costs than American Fork either offer fewer services than American Fork, or they have additional revenue sources that help subsidize their general fund operations. As stated earlier some cities do not have recreation programs, libraries, or fitness centers. Lehi, Springville, Spanish Fork, and Payson all have their own power companies. Spanish Fork also has its own Fiber Network. Many of these additional services generate excess revenues which are added to their general funds. If you exclude the cities with subsidies or fewer services, then American Fork is one of the lowest cost cities to live in.

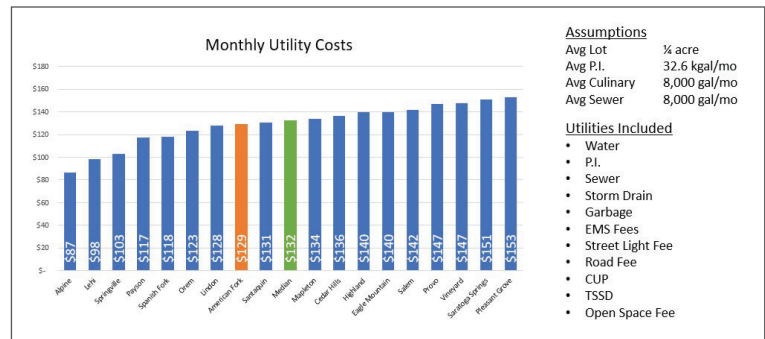


Figure 6 - Monthly utility bill costs by city.
Does not include fees charged for power or fiber.

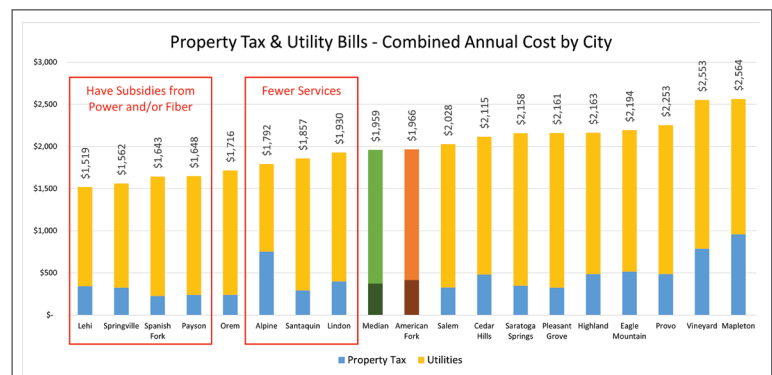


Figure 7 - Combined annual property taxes and utility bills paid by city. City's with fewer services and/or subsidies can afford to have lower taxes or fees.

CONCLUSION

In a letter to Jean-Baptiste Leroy on Nov 13, 1789 Benjamin Franklin said, "Our new Constitution is now established, and has an appearance that promises permanency; but in this world nothing can be said to be certain, except death and taxes." These words have held true in the minds of most Americans and are often uttered, with some cynicism regarding a government's need to tax for services. But when it comes down to it, taxes are simply a reflection of what services residents expect the government to provide. It is important to understand how things like property taxes are being calculated and assessed to appreciate

just what American Fork is doing for its residents. For many years American Fork has been doing more and more with relatively fewer and fewer property tax dollars due to the downward inflationary pressure of the certified tax rate. At times American Fork may be unfairly held up as one of the more costly cities to live in. But after a closer look, the annual costs paid by residents in American Fork is comparably low for the services provided. As you can see, American Fork really does work hard to provide the best services at the lowest rates possible for our residents.